TARIFF REFORM AND MONETARY REFORM.

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THE fundamental truth on which the policy of tariff reform is based is that the world of commerce is by nature a continuous unity. Any measure or system which tends to hedge it off into districts or departments is more or less artificial, and therefore, if justifiable at all, justifiable only on account of some temporary stress or other circumstance foreign to the normal order of society. Starting out from this principle, I desire to show that at the present time tariff reform depends upon monetary reform, and can never achieve its end in any satisfactory degree without a radical modification of the monetary conditions which now prevail.

It is universally admitted that since 1873 there has been an extraordinary appreciation of gold, or, what is the same thing, an extraordinary fall in general prices ; but no one, so far as I am aware, has noticed what a decided forensic advantage this gives high protectionists in their argument against tariff reformers. In the last presidential canvass anti-protectionists incessantly inveighed against the McKinley Bill on the ground that it had raised prices. They were able to prove that it had raised some prices, but that it had elevated prices generally they could not prove. On the contrary, the figures gathered by the Senate Committee showed that after the McKinley Act went into effect general prices slightly fell. This result was undoubtedly due in part to the inclusion of sugar in the Senate statistics; but the rise of general prices under the McKinley Act, even aside from sugar, was insignificant. Because of this, many believed, and still believe, that the whole outcry against the law sprang either from error or from a purpose to deceive voters.

What the McKinley legislation did do, beyond all question, was to enhance the intrinsic costs of things, to increase the amount of exertion which our people in general were having to put forth in order to procure a given number of pounds, yards, bushels, etc., of the various goods necessary to their subsistence. It did not raise prices in general, but it did raise costs in general. That few people saw this, was due to the natural but very perverse habit of confusing prices with costs, as if the two were either identical or always varied in the same direction. The tendency of a protective tariff to elevate prices had in this case been partially or wholly offset by the fall in prices involved in the appreciation of gold.

Had there been no appreciation of gold, that is, no downward movement in general prices, caused by paucity of full money in our part of the world, the consequence of the McKinley law would have been a considerable rise of prices. The nature of that legislation would thus have been made so apparent that the recent victory for reform would have been overwhelming and final. The nation's verdict in the matter would have been so decisive as to settle forever the question what sort of a tariff policy the United States should pursue. As it is, this cannot be said to have been the case. If any expect the lowering of our customs duties to be from this time an easy and certain thing, they are, in my judgment, much mistaken. The cause still has great obstacles to overcome, in which all possible help will be needed. It is extremely desirable that the fall of prices which obscures, and, unless stopped, will go on obscuring the inevitable effect of high tariffs, should be obviated if possible.

It is necessary to insist with extreme emphasis upon this difference between prices and costs. Pardon me, therefore, for dwelling a few moments longer upon the dense and painful misunderstanding upon this point which afflicts many perfectly intelligent people. The statement is continually made that falling prices are advantageous, just what one ought to wish, as the signs of advancing wealth, comfort, and civilization. The proposition needs amendment. What is desirable is that the costs of commodities should decrease, but it is not necessary that this decrease should be accompanied by a fall in prices. It may even be accompanied by a rise in prices, as was the case after 1848.

All are glad, certainly, to have the costs of things become less and less. This process has been going on since 1873. Had

this alone occurred, no one would complain. There are two proofs that this is not all which has been doing. One is that intrinsic costs were falling between 1848 and 1873—falling as rapidly as since 1873. But prices then were rising rather than falling and it was a period of extraordinary prosperity everywhere. Another evidence that the fall in the intrinsic costs of things since 1873 has had a baneful accompaniment of some sort is as follows: Falling costs imply prosperity. The signs of a *régime* of falling costs are high interest and dividends, good wages and profits, happy merchants, manufacturers, bankers, and workmen; few failures, few strikes and lockouts, rapidly multiplying industrial undertakings, and rapidly increasing wealth. This is not a picture of the world's economic life for the last twenty years. Costs have fallen, doubtless, but the fall in prices has not consisted solely or mainly in reduced costs.

Just so, an advance in prices may mean an advance in costs, as is often or usually the case when prices are put up by a tariff; or it may mean merely an increase in the volume of money, without increase or even with decrease in costs, as was the case after 1850. I have nowhere seen these distinctions properly observed; and because they are not observed, people of much information talk very absurdly upon the subject. One class hails with joy a rise of prices, whatever its cause; another laments it, whatever its cause. So, when prices decline, many imagine that the decline must mean a lessening of the effort necessary to get commodities, and they utter hallelujahs accordingly.

It is quite conceivable that costs should go one way and prices another, that costs in general should fall, so that the community needs less effort year by year to get a certain amount of satisfactions, and yet gives for those satisfactions a greater number of the units of money year by year. This is what was taking place after 1850. The reverse may also occur; that is, costs may increase or may remain stationary, and yet prices decrease. The McKinley tariff added to the costs of all or most things which it affected, but an unhappy appreciation of gold, to a great extent prevented this increase of cost—this addition to the effort necessary to obtain things—from taking effect in the form of higher prices. This obscuration of fact, I repeat, gave in the canvass, and continues to give, to the high tariff party a prodigious advantage in argument. There is no doubt that, in the election, it

secured for high tariff multitudes of votes. It keeps in favor thereof numbers of men who, but for it, would prefer reform, and it will continue to have this effect so long as the source of the error lasts. The condition producing the mistake ought to be cancelled by arresting the appreciation of gold through an increase in the volume of full or exportable money.

With this support which the appreciation of gold gives the protectionist as a debater, is closely connected the impulse toward protection with which it plies him if, as is usual, he is also a producer. The first of these considerations relates to logic, appealing to the mind; the second is economic, addressing itself to the pocket. Producers as such always like to see prices rise; and up to the figure where the increase begins to limit sales so as to lower total profit, they are sure to use their influence in favor of an advancing market. When prices threaten or begin to fall, producers redouble their efforts as bulls. At such a time stock depreciates upon manufacturers' hands. Spontaneously struggling to avert this, they welcome any resource that bids fair to aid. Unable to compass their ends in other ways, they are moved to agitate for protection, which often, when it does not out and out elevate or stay the prices of goods, prevents them from falling as low as they would fall otherwise. If, as has almost always been the case in our country, manufacturers are foremost in framing the nation's fiscal policy, this is in any event sure to be protective, but it will be doubly so if they change it while prices are sinking.

That the consideration here touched has been most potent in the revived protectionist agitation which has swept over the world since the time when prices began to fall, hardly admits of doubt.* Since 1891, even New South Wales succumbs to this drift. The two phenomena are connected not alone in point of time, but logically, just as those of low duties and progress toward free trade after 1845 are connected with the rise of prices during the same period. As to times more recent, I have no hesitation in saying that had prices since the war been stationary or only slowly advancing, the rise in tariff rates so much bewailed would not only have been impossible, but would never have been thought of; and the painful effort which we are now making to rationalize our fiscal system would have been unnecessary.

* The rise of trusts and other combinations of capital is due to the same cause. In times of falling prices, production is extra hazardous, and such as engage in it feel the need of some special shelter, defence, or insurance.

Unless something can be done to remedy the world's monetary disorders, the manufacturing classes will continue as in recent years to be arrayed in almost solid phalanx against tariff reform, whereas, if the fall of prices could be checked, one principal motive now prompting them to such an attitude would happily fall away. This motive, now, has a certain justification, which even free traders must admit.

A special incentive just now operative in the United States spurs protectionists here to try and maintain high customs duties. It is the fact that we must retain our gold. In the East, nearly all our citizens admit this necessity, whatever their views regarding the tariff. As is well known, we produce several commodities which Europe must have, while few of our wants are of such a nature that we cannot, by sufficient expense, provide for them at home. By thwarting somewhat the disposition of people in Europe to settle with us in commodities, we compel them to send us more gold than they otherwise would. If the pressure for gold now so rife in all European countries could be removed, then this particular American ground for favoring protection would also be removed, and reform would be indefinitely easier in consequence. Otherwise the fight for gold cannot but plague us badly in settling a new tariff. Provided we are going to keep our gold, we cannot permit Europe too easily to liquidate in goods the debts she incurs on our side the ocean. The present Congress encountered this difficulty in its very first debate on the tariff, and will have to reckon with it at every step. Should the Wilson bill become law, and immense new importations under it send all our gold to Europe, many who have voted for it would curse the day when they did so.

Tariff reform proposes to do much for the American farmer, and it will do much, but its benign effect in this way must be painfully restricted unless silver can be brought back to or toward its old-time value-relation with gold. Many wonder at Great Britain's obstinacy in refusing to do aught that might help on the rehabilitation of silver. The opposition of the creditor interest is commonly considered the cause of this. It is one cause, but there is another quite as strong—the determination of the entire non-agricultural population of Great Britain to maintain the present low price of wheat. This having resulted from the appreciation of gold, Lord Rosebery and his followers see that,

were silver to be reinstated, wheat prices would considerably advance.

The appreciation of gold depresses the price of wheat in London by powerfully stimulating the importation of wheat from India. Let us recur to the days when gold was only fifteen and a half times as precious as silver. Suppose that then four shillings in gold, two rupees in silver, and a bushel of wheat were equal in value each to each. A Mark Lane dealer sends to India two rupees' worth of silver for a bushel of wheat, getting his rupees by paying four shillings' worth of gold. Now change the supposition: Gold appreciates, so that the two rupees will buy only three shillings instead of four, as previously. That is, silver has fallen in relation to gold 25 per cent., and gold has risen in relation to silver $33\frac{1}{3}$ per cent. Wheat, too, has fallen in relation to gold, but not so much as silver, so that, say, a bushel will exchange for three and a half shillings gold. Observe, now, how the appreciation of gold blesses our Mark Lane wheatmonger. The rupee or silver price of wheat in India has not changed. His two rupees will, as before, set a bushel of wheat going from Calcutta to London. He now, however, gets his rupees for three shillings gold, while his wheat brings him three and a half shillings gold. That is, he makes sixpence gold on every bushel. To aid simplicity I have made these figures gross and general and have taken no account of freight or exchange. But, though more or less inexact in detail, the supposition perfectly illustrates the effect which the dislocation of the old value-relation between the precious metals has had in filling London with Indian wheat. The profit, of course, does not continue so high as indicated, but is lowered by competition. This lowering comes about by a fall in the gold price of wheat in England, which not only more and more cuts down the London market for American wheat, but depresses the price of wheat to the remotest farm in the United States.

The correctness of the theory just stated is sometimes challenged on the ground that if it were correct the silver price of wheat would, through stimulation of the demand, have risen in India, which has not been the case. This apparent anomaly is easily explained. There has no doubt been a tendency to such rise, but it has been balanced by the counter-tendency toward cheapness put in exercise by the immense multiplication in India,

during recent years, of railways and other facilities for easy transportation. In this roundabout yet inevitable way, both the American market for wheat and the American price thereof are kept down by the appreciation of gold. A similar analysis could be given in relation to cotton, only here the British pressure in favor of low prices through dear gold is offset somewhat by the difficulty which dear gold gives the cotton people themselves in preserving their market abroad. Of this I shall say more presently. Meantime, it seems to me absolutely certain that the production of the two great staples mentioned can never be duly profitable in America till the gold price of silver is much raised; that is, the appreciation of gold checked.

Tariff reform sees still another powerful reason why silver ought to be brought back to a certain regular parity with gold. It is a reason of which we in America have thought little, but we cannot permanently ignore it. I refer to the lack of a fixed par, a mint par, between the gold-using and the silver-using portions of the world. The distress which the absence of such a par has produced in England is among the chief causes for the great increase of sentiment there favorable to bimetallism. It is found that trade between England and India has come to be little more than a game of chance. All the people engaged in it or acquainted with it pronounce its condition intolerable. We Americans have been accustomed to think of this evil as having little importance for us, but we are certainly in error. All parties are agreed that it is already desirable and must soon be indispensable to increase our foreign trade. Some would promote this by subsidies upon steamship lines between our own and foreign countries. Others prefer the method of reducing duties. But no intelligent American will deny that in some way or other the exports from the United States of America must immensely increase if the prosperity of our country is to go on. A very great part of the new exports must go to the lands which have silver as the basis of their currency, as China, Mexico, Central and South America. We ought to be the principal purveyors of manufactured goods to all these regions. No other great manufacturing nation is so near them. Far too long have we been sluggish touching this important interest. Even the last election has hardly awakened us. When the matter is studied as it deserves to be, our people will not rest until they begin to utilize

this gigantic possibility. Now the friction in exchange between the gold-using and the silver-using populations of mankind is about the worst conceivable barrier to the execution of this splendid scheme. It may seem a strong statement, yet I am of the opinion, after much reflection, that the demonetization of silver in 1873, annihilating all money par between rich and populous sections of humanity, sections which more than any others ought to be trading freely together because their natural products are so diverse, is doing more to repress commerce than all the tariffs in existence. This is why the exports from Great Britain to the East have for many years been either falling off or increasing at a snail's pace in comparison with the progress they ought to have made. Excepting a few writers for the London press, I do not believe that an intelligent Englishman can be found who will not trace this loss to the crazy condition of exchange.

The same evil affects Mexico as well. At the Monetary Conference the Mexican delegates submitted a paper which gave impressive testimony to this fact. Among other documents which they laid before the Conference was a table illustrating the frequency and sweep of the variations in Mexican exchange upon London for the years 1889 and 1890. Here is that table :

	1889.				1890.			
Months.	Max.	Min.	Var.	No. of Var.	Max.	Min.	Var.	No. of Var.
	Pence.	Pence.			Pence.	Pence		
January	35¾	35¼	½	7	37⅝	37⅜	¼	8
February	35⅝	35	⅝	6	37⅝	36½	⅛	9
March	35½	35⅝	⅛	1	37⅝	36½	⅛	15
April	35⅜	35¼	⅛	1	39	37⅛	1⅞	13
May	35 9/16	35⅜	3/16	2	39¾	38¼	1½	8
June	35⅞	35½	⅜	2	41½	39¼	2¼	11
July	35⅞	35⅜	½	3	42½	40¾	1¾	8
August	35 11/16	35⅜	5/16	3	45½	42¼	3¼	9
September	36⅛	35¾	⅜	6	45⅝	44	2⅝	10
October	37⅞	35⅞	2	6	43¼	40¾	2⅛	17
November	37¾	37⅛	⅝	11	41⅜	37	4⅜	14
December	37⅞	37¼	⅝	12	41½	39¼	2¼	13

Similar variations in exchange rates between the gold and silver portions of the globe are of course taking place at all points. Yet those are precisely the exchanges which are most important for the advance of human weal and civilization.

The last fall in the gold price of silver has greatly aggravated this evil.

This obstruction of international exchange operates exactly like a high protective tariff, forcing nations to use at home what they could more profitably export, and produce at home what they could more profitably import. Capital and labor are thus driven into needlessly unremunerative channels, and the average welfare of men kept down. It was recently stated in Parliament that "eighteen cotton mills are at this moment being erected in Bombay and two in England." During the year between July 1, 1890, and July 1, 1891, nine factories were building in India. One hundred and twenty-five in all were then in operation there, with 24,531 looms and 3,351,694 spindles. There were then 110,000 Indian laborers engaged in this industry, and they used 40 per cent. of the about 300,000,000 bales of cotton produced in India. Within ten years the number of hands has multiplied threefold, and the amount of cotton wrought by them more than fourfold. It is true that the import of woollen yarn into India from England still keeps up, but it does little more than this, and is mainly confined to the finer lines. Even if the establishment of this Indian manufacture involved no loss to England so far as her trade to India itself is concerned, which, of course, it does, she suffers vast loss in China, whither most of the Indian yarn is exported. In 1888 and 1889 India sent to China 101 billion pounds of cotton yarn, having a value of $814,326,750. In three years the amount of yarn increased 50 per cent., and the value nearly the same. In the year 1890 the value of Indian commerce with Europe was $441,-000,000, with an export surplus of $31,090,000. With the other countries of the world, India's total commerce was $187,338,750, with an export surplus of $81,783,750. Thus, while the centre of gravity of India's foreign commerce is in Europe, the centre of gravity of her surplus export is elsewhere. The surplus is particularly great with Ceylon, Japan, and China. What is more surprising than these figures is that, spite of the heavy wheat trade just referred to, India's balance with England taken alone is even passive, very passive, as she imports from England $188,-591,250, and exports thither only $146,703,750, whereas from the rest of Europe, outside of Turkey, she imports but $16,376,250, while exporting thither $89,298,750, leaving a net export of

$57,922,500. Her net exports to the silvering-using lands are singularly striking: $6,307,500 to Ceylon, $4,723,750 to Japan; $35,551,250* to China.

The jute industry, too, has of late years had enormous development in India. At the close of 1890, 160,275 spindles and 7,964 looms were devoted to this industry in that country, employing 70,000 laborers. Five hundred new looms are said to have been set up in 1891. Steam flouring mills have also been erected of late in Bombay. India would probably in any event become in time one of the great manufacturing centres of the globe, but it would, for the present, be to her advantage, could she trade freely with England, to purchase thence most of her manufactures. She would perhaps profit by the arrangement as much as would England herself.

India's active commodity balance, or, as we say, favorable balance of trade, is paid for mostly in silver, though that enormous country, which contains almost one-fifth of the world's population, trained through centuries to think of law and government as uncertain, and being, therefore, not in condition to utilize credit, absorbs enormous amounts of gold also. In 1890, 461 lacs† of rupees in gold came into the country, but only two lacs went to the mint. The entire remainder the people hoarded or made into trinkets. Even the imports of the precious metals do not fully equate the surplus of commodity imports, the remainder being made up in London council bills.

Another movement dear to tariff reformers which is mightily hindered by the rise in gold is the flow of free capital from rich countries to poor. That international commerce may be as beneficial as possible it is necessary that the most abundant resources from every quarter should be at the disposal of those in any country who are endeavoring to build up the industries in prosecuting which that country has special advantages. Incalculable is the aid which human progress has received from investments made by countries of abounding capital in less fortunate portions of the world. Such blessing takes effect at both poles of the transaction. If well placed, the loans pay richly those offering them, at the same time that the borrower countries receive a great boon. This is but the beginning. Wealth and production

* These amounts in dollars are arrived at by reckoning rupees at 37½ cents.

† A lac = 10,000.

being stimulated both in the land that makes and in that which takes the loan, each becomes a better customer for the other, furthering its prosperity still more, and so on, in ceaseless round. Now, the destruction of a par in exchange between two countries with different basal moneys clogs the play of this benign principle, making interest inordinately high in silver lands and desperately low in gold lands, each side being impoverished for lack of a service which the other would gladly render could it do so with financial safety. The would-be borrower, in Benares or Delhi, hesitates to promise any rate per cent. in gold, as he cannot tell for a month, or even a day, beforehand what such rate will soon mean in silver, wherein every item of his income is told. The would-be lender, in London, Berlin, or Paris, disinclines to let his capital go for any rate per cent. whatever expressed in silver, since, were he to do so, however high the figure might be, it might, when interest day came, mean in gold anything from 20 per cent. down to zero. It is clear that no bridge of normal and regular credit can be made to span a commercial chasm of this nature. No loans will be effected under such circumstances, till interest is so low on the gold side and so high on the other that both parties grow very rash. In other words, borrowing and lending amid difficulties so grave is no longer business but gambling.

In Mexico, as well as in India, the appreciation of gold, wrecking the old parity between gold and silver and turning foreign exchange into witchcraft, has had the same effect, of immensely stimulating domestic manufactures. The Mexican delegates at the Brussels Conference made upon this point a statement which I beg leave to reproduce :

"If silver remains in Mexico in larger quantities than hitherto, productive employment for it must, perforce, be found. Agriculture will certainly be developed, but, considering the special circumstances of the country, we think that industrial undertakings will be preferred. The production of our own manufactures will cause a proportional diminution in the consumption of many European manufactures, and will in time end by completely superseding some of them. This consequence of the increase in the currency in Mexico is already beginning to be realized. For a long time we have had, if not many, yet for the most part very important, manufactures of cotton and woollen fabrics, of paper, etc., and their number has been increasing the last few years. Recently, in October, a manufactory of cotton fabrics of all sorts was opened at Rio Blanco, near Orizava, on the Mexico & Vera Cruz Railway, the importance and the probable producing power of which may be estimated by its having cost already about 5,000,000

piastres [about $5,000,000 in silver]. Besides this noteworthy example, we often find in the newspapers accounts of the establishment of new manufactories of various kinds, also of metal foundries, some of them on a large scale, like those erected two years since at Monterey and San Luis de Potosi, to utilize our lead ores, which had been exiled from the United States by a nearly prohibitive import duty. Manufactories of soap, of Portland cement, and of many other articles have been introduced."

It is at this point that the far-sighted and patriotic among the advocates of free silver find their inspiration. Aware of the absolute necessity resting upon this country to extend its foreign markets, they would take advantage of England's folly in continuing under gold monometallism and would place the United States at the head of the silver-using group of nations, to do for them their manufacturing. "Let us break off commercial relations with Europe," they say, "if only we can establish such relations with that vast part of the world where manufactures are either non-existent or inchoate, and must grow, if at all, with difficulty; and let us create for those teeming millions all their manufactured articles, taking in return those things which they can produce so much more easily than we." When men point out the prosperity that might come to our country through the introduction of such a scheme, to ridicule them betrays no intelligence. Their thought in itself is magnificent. In declaring that there is an opportunity by the means suggested to "dish" England in the markets of the world, they are quite right. If this could be accomplished without involving us in other difficulties, it would be the finest commercial *coup d'état* ever effected since trade began. So much reason attends the notion that it seems to me sheer madness to oppose to it a policy like England's present one of stubbornly adhering to gold monometallism.

With that of the ultra-silver men falls in wonderfully the idea of reciprocity put forward by Mr. Blaine. This is very popular with those brought up to believe in protection, who yet see how badly protection handicaps us in certain directions. Were every custom-house in the land levelled and every customs officer dismissed, silver monometallism, or free silver, would still preserve protection between us and Europe, just as gold monometallism now has exactly the effect of protection between us and the silver-using world. No consistent tariff reformer can wish either of these policies to prevail. The only tariff reform that will go to the root of things, carrying out the proper theory of

international commerce, must involve bimetallism, thus making the world, for trade purposes, into one unbroken total. A protectionist is naturally a monometallist: a silver monometallist if he wishes trade defences against Europe, a gold monometallist if he wishes commercial shelter against the rest of the world. But how a thinker who sees through and is inspired by the thought of world-commerce and the uplift of civilization inevitably consequent thereupon can desire either of these monometallisms to exist passes my wit.

The suggestion just thrown out seems to me to indicate the proper method whereby to bring the two great monetary factions of our country into working harmony. Without some sort of a compromise in the matter, we shall be for an indefinite time to come at a hopeless deadlock over our treatment of silver. The ultra-gold party can never carry the day. Neither can the ultra-silver party. Though either may win a majority for a time, too much life will be found on the other side to allow permanent victory. Let those who oppose free silver take more pains to show that they are not averse to a monetary system involving silver as full money, provided it can be so ordered as to make the basis of our trade, external and internal, perfectly solid. International bimetallism will certainly do this. We are not the vassals of the small class who live upon the interest of loaned money but produce nothing. Let influential men in the East more earnestly champion the cause of bimetallism, instead of continually casting umbrage upon it, thus showing aid and comfort to the party in England which is striving to maintain and increase the appreciation of gold. At best, doubtless, the more rabid free silver men will be intractable, but the course I recommend would break that party. Those determined not to Mexicanize the United States in respect to money would receive from the silver ranks allies enough to establish a strong and permanent hard-money majority in Congress. Let this country take an attitude against the free coinage of silver by the United States alone, but in favor of its free coinage in case all the great nations will join therein, and the bimetallists in the British Parliament will soon win the day there. The policy of all Europe will then become bimetallic, and monetary peace and prosperity be assured to the world for at least the next hundred years.

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